

Exploring the role of the neighbourhood in firm relocation: differences between stayers and movers

Citation for published version (APA):

Sleutjes, B., & Beckers, P. (2011). *Exploring the role of the neighbourhood in firm relocation: differences between stayers and movers*. UNU-MERIT, Maastricht Economic and Social Research and Training Centre on Innovation and Technology. UNU-MERIT Working Papers No. 064

Document status and date:

Published: 01/01/2011

Document Version:

Publisher's PDF, also known as Version of record

Please check the document version of this publication:

- A submitted manuscript is the version of the article upon submission and before peer-review. There can be important differences between the submitted version and the official published version of record. People interested in the research are advised to contact the author for the final version of the publication, or visit the DOI to the publisher's website.
- The final author version and the galley proof are versions of the publication after peer review.
- The final published version features the final layout of the paper including the volume, issue and page numbers.

[Link to publication](#)

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal.

If the publication is distributed under the terms of Article 25fa of the Dutch Copyright Act, indicated by the "Taverne" license above, please follow below link for the End User Agreement:

www.umlib.nl/taverne-license

Take down policy

If you believe that this document breaches copyright please contact us at:

repository@maastrichtuniversity.nl

providing details and we will investigate your claim.

Download date: 05 May. 2023



UNU-MERIT Working Paper Series

#2011-064

Exploring the role of the neighbourhood in firm relocation: differences between stayers and movers

By Bart Sleutjes & Pascal Beckers

Maastricht Economic and social Research institute on Innovation and Technology (UNU-MERIT)

email: info@merit.unu.edu | website: <http://www.merit.unu.edu>

Maastricht Graduate School of Governance (MGSoG)

email: info-governance@maastrichtuniversity.nl | website: <http://mgsog.merit.unu.edu>

Keizer Karelplein 19, 6211 TC Maastricht, The Netherlands

Tel: (31) (43) 388 4400, Fax: (31) (43) 388 4499

UNU-MERIT Working Papers

ISSN 1871-9872

**Maastricht Economic and social Research Institute on Innovation and Technology,
UNU-MERIT**

**Maastricht Graduate School of Governance
MGSOG**

*UNU-MERIT Working Papers intend to disseminate preliminary results of research
carried out at UNU-MERIT and MGSOG to stimulate discussion on the issues raised.*

Exploring the role of the neighbourhood in firm relocation: differences between stayers and movers

Bart Sleutjes · Pascal Beckers¹

Abstract

This paper looks at the factors that influence an entrepreneur's decision to stay or move out of a neighbourhood. In general, new and relatively small firms tend to have a strong connection to their local environment and hardly ever move across large distances. Aspects of the building (e.g. size) are the most likely reason to move, but does the neighbourhood itself matter as well?

We look to what extent neighbourhood aspects influence or have influenced the decision to stay or move, both on the push and the pull side. These aspects may be related to the local physical environment or the safety situation, but also to the local social community.

We conducted in-depth semi-structured interviews with 40 entrepreneurs from five urban neighbourhoods in the Netherlands. The sample is equally divided between firms that stayed and firms that recently moved out of the neighbourhood (20/20). The survey provides detailed information on the characteristics and the performance of firms, as well as network contacts, neighbourhood attachment, location choice, and the valuation of location aspects. We make use of qualitative methods in order to analyze our data.

Overall, we found that the reasons behind firm relocation propensity are explained by a combination of the factors put forth in the neoclassical, behavioural and, to a lesser extent, also the institutional strand of literature. Costs, space, market and accessibility aspects are indeed important reasons for both actual and planned relocation, but they cannot be seen apart from other reasons relating to the

Bart Sleutjes (corresponding author)

Urban and Regional research centre Utrecht, Faculty of Geosciences,
Utrecht University, The Netherlands

e-mail: b.sleutjes@geo.uu.nl

Pascal Beckers

UNU-MERIT/Maastricht Graduate School of Governance, Maastricht University, The Netherlands
e-mail: pascal.beckers@maastrichtuniversity.nl

entrepreneur as an individual. What stands out is that in general, firms move because firm-internal developments (growth) or, in the case of home-based entrepreneurs, because changes in the household situation or housing preferences make relocation necessary. Aspects of the weak neighbourhood itself are only regarded as problematic, and consequently influence relocation propensity, when these aspects directly affect firm performance.

Keywords: urban residential neighbourhood, firm relocation, neighbourhood characteristics

JEL codes: R23, R21

1. Introduction

Whereas local economic policies are in general targeting at attracting firms from other municipalities, regions or even countries, the vast majority of firm relocations takes place across rather short distances. Within the Netherlands, 93% of all firm movements occur within the same region (NUTS 3 level) and 75% of the moving firms do not cross municipal borders (RPB, 2007). These movements across short distances indicate not only that firms are more attached to their locality than presumed, but also that quality differences exist even within production milieus at the local level. A recent study by PBL (2010) has shown that especially weaker neighbourhoods are characterised by high firm exit rates. This paper seeks to examine whether aspects of these weaker neighbourhoods steer relocation propensity, next to firm internal developments and personal preferences of entrepreneurs. Relocation propensity has two dimensions. On the one hand, we are interested in firms that recently moved out of five weaker neighbourhoods in Dutch large cities (*movers*, hereafter) and the reasons that were behind this relocation. On the other hand, for firms that stayed in the same neighbourhoods (*stayers*, hereafter) we want to know about their plans and motivations for future relocation. Most studies dealing with firms' relocation behaviour focus on market aspects, financial reasons, the demand for space (Van Dijk & Pellenbarg, 2001) or social or institutional embeddedness (Boschma & Frenken, 2004; Knobens, 2007). Only during the past decade, characteristics of the region itself are considered as 'push' or 'pull' factors for firms. Regional aspects such as the presence of cultural amenities, the green structure (Love

& Crompton, 1999) and social diversity (Florida, 2002) may explain why certain places are more attractive for firms than other places. However, the large number of intra-municipal firm movements—around 60% of all firm relocations takes place between residential neighbourhoods (PBL, 2010)—demands more knowledge on the relation between the firm production environment and firm mobility at the low scale level of the neighbourhood.

In this paper, we investigate how economic, physical, social and liveability neighbourhood factors shape entrepreneurs' relocation propensity. The main question of this paper is therefore: *“To what extent do economic, social, physical, and liveability neighbourhood characteristics play a role for the relocation propensity of entrepreneurs in weak neighbourhoods?”* By means of semi-structured interviews with the entrepreneurs of 40 small-sized firms (20 movers and 20 stayers) in five Dutch urban neighbourhoods, we aim at getting a grip on relocation propensity. If certain neighbourhood characteristics or localized networks turn out to be pull or push factors for entrepreneurs, this might be of interest to policy makers aiming at stimulating the neighbourhood economy by attracting and retaining local entrepreneurs.

This paper is structured as follows. In the next section, we will provide a short review of recent literature on causes of and processes behind firm's relocation propensity. In the third section, we describe the data collection process and the research methods used. In part four, we summarize the main findings of our research, which are illustrated by interview citations. Finally, in the last part we conclude our study by answering our main research question and present a number of points for discussion and policy recommendations.

2. Literature review

The literature on firm relocations shows that relocation is in general determined by characteristics of and development within firms. Firms especially relocate as a result of a shortage of business space, which usually results from firm growth (Pen, 2002). In general, when firms hire more staff, more business space is needed, which is often not found within residential districts. Therefore, fast growing firms tend to relocate to business parks (Louw et al., 2009; PBL, 2010). Young firms are more likely to move than older ones, and also firms that do not depend on local sales, like business services, are more likely to move than locally-oriented sectors, like retail or

hospitality (hotel and catering industry) (Aalders et al, 2008). Small firms are more likely to relocate than large firms, because they have lower sunk costs (staff, investments in premises or networks) than larger firms (Stam, 2003). Also younger firms are to a lesser extent tied to their current location through investments and network embeddedness and therefore move more easily than older firms (Brouwer et al., 2004).

But apart from the abovementioned firm internal factors, also firm external factors may influence firm dynamics, in particular through the quality of the local production environment (Van Dijk & Pellenbarg, 2000). There are two types of relations between the firm and its production environment, namely *market* relations and *conditional* relations (Lambooy, 1995). Market relations relate to the firm's geographical location with respect to relevant markets, its ability to attract qualified staff and capital. For locally oriented firms, the local level of spending power and the distance to the market are important for firm performance (Ouwehand & Van Meijeren, 2006; Bulterman et al., 2007). The activities of this type of firm have a relatively small spatial scope, since people are in general not prepared to travel long distances for a bakery or a hairdresser. If spending power is low, this will likely affect the performance rates of locally oriented firms negatively, and relocation may be seriously considered.

Conditional relations include local infrastructure, government policy and physical characteristics of the business space and its surroundings (Lambooy, 1995). This paper mainly focuses on conditional relations. The attractiveness of the physical neighbourhood environment, i.e. the quality of the housing stock, local liveability and the amenity structure may steer relocation of entrepreneurs, in three possible ways.

First, the supply of suitable business space and, in the case of independent professionals, the availability of attractive dwellings within the neighbourhood may function as pull factors for firms. In the same line, aspects of and investments in the business space or dwelling may tie a firm to a certain location (Stam, 2003; Mackloet et al., 2006).

Second, being embedded within personal and business-related networks can become a barrier to relocation. Moving across large distances leads to a loss of crucial network contacts, as a result of which firms with many inter-firm relationships are less likely to leave their region (Knoben, 2007). This claim is supported by empirical evidence at the regional level, but not yet at the local level.

Third, perceptions of local liveability may matter as well. On the one hand, an unattractive and unsafe environment can scare away (potential) customers and decrease entrepreneurs' satisfaction with their location, thereby steering the wish or necessity to relocate. On the other hand, an attractive and safe neighbourhood environment may function as a pull-factor for new firms (Love & Crompton, 1999; Florida, 2002). Recent empirical evidence (PBL, 2010) shows that low liveability scores negatively affect firms' survival and growth chances, especially for businesses operating in consumer services, but also relocation is stimulated by high levels of nuisance and vacant business spaces. Neighbourhoods with low liveability scores are therefore characterized by higher rates of firm outward mobility (PBL, 2010).

For locally oriented sectors, liveability aspects likely influence relocation propensity through the market. For example, high perceived or actual levels of crime and nuisance within the neighbourhood, as well as physical deterioration (e.g. vandalizing or litter on the street), can be considered unattractive or intimidating by potential customers who are therefore more likely to look for alternative shopping locations. But also for non-locally oriented sectors, local liveability may play a role for relocation propensity. Since a large share of non-locally oriented firms within neighbourhood is home-based, the quality of the physical environment and liveability may also be expected to be important for the entrepreneur personally, and not so much for his firm. When a neighbourhood is considered unsafe or has an unattractive housing stock, entrepreneurs, and subsequently also their firms, are more likely to move to another neighbourhood. Furthermore, low liveability scores and a corresponding negative neighbourhood reputation may also negatively affect the reputation of local firms, both locally oriented and non-locally oriented (Aalders et al., 2008).

The literature on firm relocation decisions can be subdivided into two strands based on the main motivations and considerations. First of all, the *neoclassical* location theory focuses on profitability issues, and the reasons for relocation are usually related to business costs or the market. Firms only move when necessary, i.e. when their current location is no longer profitable, as a result of rising business costs (push factor) and when another location is regarded more profitable because of better customer potential (pull factor) (Pellenbarg et al., 2002; Mariotti, 2005). The neoclassical theory assumes fully rational behaviour and perfect information. At the same time, it disregards firm internal factors and relocation costs (McCann, 2001).

Second, the *behavioural* theory assumes that entrepreneurs take location decisions based on imperfect information and personal ambitions and preferences (Mariotti, 2005). This theory seems to be the most suitable for identifying relevant aspects of the local production environment to affect entrepreneurs' relocation choices, since it looks at relocation from a broader perspective, thereby incorporating not only business costs and demand for space, but also the personal perceptions of the entrepreneur (Mariotti, 2005). Instead of maximizing profits, entrepreneurs tend to look for sub-optimal outcomes, taking into account relocation costs, their familiarity with locations ('mental mapping') and other non-economic motivations like combining work with household tasks (Van Dijk & Pellenbarg, 2000; Brouwer et al., 2004).

3. Data and methodology

We follow an exploratory research design, since we want to know more about firms' relocation propensity, with specific attention for the potential influence of neighbourhood characteristics. In this section, we will first motivate the choice for our research areas, and then describe the data collection process and the methods used.

3.1. Selection of neighbourhoods

The selection of neighbourhoods was based on a number of practical and theoretical considerations. First of all, since the focus of this paper is on residential neighbourhoods, we exclude non-residential or commercial districts. Residential areas are defined as areas with at least ten private households per acre of built up area and a number of private households that is at least five times larger than the number of firms.

Second, since weaker neighbourhoods are expected to offer the least favourable business conditions, the propensity to relocate will likely be higher in this type of district, which is also supported by recent empirical evidence (PBL, 2010). Policy-wise, this makes it interesting to focus on weaker neighbourhoods, which can be defined based on the following two criteriaⁱ: 1) a low average income and 2) a high share of non-Western immigrants. In order to avoid large variations in the urban context of these neighbourhoods, we limited our neighbourhood selection to the four largest cities in the Netherlands.

Third, the neighbourhoods had to accommodate a sufficient number of firms, in order to be able to find a sufficient number of interview candidates. Out of the 93 neighbourhoods that met the abovementioned criteria, we selected five ‘typical representatives’: areas that have characteristics that are about average of the characteristics of all 93 disadvantaged neighbourhoods. The following criteria were taken into consideration: the share of residents per age group, the average household size, the share of non-Western immigrants, the share of the working population (15-64 years), mean income and neighbourhood dynamics.

The selection process has led to the following five weaker neighbourhoods: Indische Buurt-Oost and Oosterparkbuurt (Amsterdam), Regentesse-/Valkenboskwartier-Zuid and Moerwijk-West (The Hague), and Overvecht-Neckardreef (Utrecht).

3.2. Data collection and research methods

First, in order to provide a snapshot of firm dynamics in weaker residential neighbourhoods, we carried out a quantitative analysis describing the local business structures and firm mobility patterns in the selected urban neighbourhoods over the period 2005-2007 (total number of firms, distribution of firms over sectors and size groupings, relocations per sector, and the distance of relocations). These analyses are based on trade register data made available by the local Chambers of Commerce.

Second, for the main part of the study, we conducted in-depth semi-structured interviews with 40 entrepreneurs. The interviews were carried out between November 2008 and March 2009. The sample is equally divided between stayers (20) and movers (20), based on the time span from 2005 to 2007. Concerning the division based on firm sectors, the sample is predominantly non-locally oriented with 29 firms, compared to 11 locally oriented firms. This composition is the result of difficulties that were encountered in finding sufficient locally oriented movers. The initial aim was to get an equal division between locally oriented and non-locally oriented firms.

The survey provides detailed information on the characteristics and the performance levels of firms, as well as their entrepreneurs’ network contacts, neighbourhood attachment, past location choices, and the valuation of location aspects. We use quotations from the interviews in order to illustrate the main relocation motivations of entrepreneurs.

4. Findings

In this section, we deal with the outcomes of the quantitative and qualitative analyses. We start with an overview of the business structures and firm mobility patterns in the selected urban neighbourhoods resulting from the Chamber of Commerce data analyses. Thereafter, we turn to our interview findings and analyse entrepreneurs' relocation propensity. We use quotations to illustrate our findings.

4.1. *A snapshot of business landscapes in the research neighbourhoods*

On average, the five research neighbourhoods accommodated 909 firms over the period 2005 to 2007. These firms are not equally distributed across sectors of commercial activities.ⁱⁱ The sectors 'retail and repair' and 'commercial services' together account for half of the total firm population. The three sectors 'ICT and media production', 'construction and installations', and 'personal services' each account for 7 to 10 per cent of the firm population. The shares of the other sectors in the total firm population are relatively small. Furthermore, 43 per cent of the total firm population is claimed by firms operating in neighbourhood-oriented sectors (firms serving local customers), and 57 per cent is claimed by firms active in non-locally oriented sectors. The locally-oriented group entails commercial activities in the sectors 'retail and repair', 'personal services,' and 'hospitality'. With regard to firm size, our expectations are confirmed in that most firms in our residential neighbourhoods are small. 75 per cent of the firms has two employees at most, and 95 per cent of the firms has less than ten employees. This illustrates that the neighbourhood economy in weaker neighbourhoods Still, the firms in our five research neighbourhoods account for a total number of 2,093 jobs. More than 50 per cent of these jobs is found in just three sectors, namely 'retail and repair', 'commercial services', and 'hotels and catering'.

4.2. *Firm dynamics in the research neighbourhoods*

Considering mobility patterns in the research neighbourhoods, a first observation is that the number of firm relocations per year is relatively low in the 2005-2007 period. Approximately 90 firms per year have moved out of the neighbourhoods, whereas on average 819 firms stayed put. A striking difference in the sample composition according to firm sector can be noticed in Table 1 when comparing characteristics of stayers and movers between 2005 and 2007. Although stayers are more or less equally

divided between locally-oriented and non-locally-oriented sectors (45 and 55 per cent respectively), movers are predominantly non-locally-oriented. 81 per cent of all movers are non-locally oriented, compared to just 19 per cent for locally-oriented sectors. This might indicate that locally-oriented firms have a lower inclination and fewer possibilities to move, because of regular customers and sunk costs, e.g. on-site investments in premises. Comparing the sector shares of total stayers and total movers in Table 1, we find that mobility is most common in the ‘construction and installation’ sector and the ‘transport and storage’ sector. Firms in these two sectors are by nature footloose, since most of their activities take place on the road or at different locations away from their administrative address. On the contrary, mobility is notably less common in the sectors ‘hotel and catering’, ‘retail and repair’, and ‘personal services’, which are in general serving the ‘passing-by’ customers from the firm’s neighbourhood.

Table 1. The composition of the firm stock according to sector (in percentages) in the five research neighbourhoods, with a comparison of stayers and movers

	3year mean sector share of total stayers (period 2005-2007)	3year mean sector share of total movers (period 2005-2007)
ICT&media production	7	8
art	3	3
commercial services	24	33
construction&installations	8	20
education&coaching	3	3
hotel&catering	11	1
manufacturing	3	4
personal services	8	5
retail&repair	27	13
transport&storage	4	7
wholesale	3	3
total	100	100
total locally oriented sectors	45	19
total non locally oriented sectors	55	81

Source: Chamber of Commerce trade register data, period 2005-2007.

In Table 2 we take a look at the distance of firm moves contrasting locally-oriented and non-locally-oriented sectors. We make three notable observations. First, in line with earlier research (RPB, 2007), approximately 75 per cent of all firms that move out of our research neighbourhoods relocates within the same municipality. Second, even within municipalities, firms tend to move across very short distances. For 31 per cent of all firm movers, the new location is located at most two kilometres walking

distance from their former location. Third, some differences between locally-oriented sectors and non-locally oriented sectors stand out. Firms within locally oriented sectors in general move across shorter distances. 40 per cent of all locally oriented movers stay within a two kilometre walking range, compared to 29 per cent for non-locally oriented sectors. This difference is significant at the 5% level. Again, this is likely related to the dependence of the former type of businesses on regular customers situated in the nearby surroundings of the firm. For these businesses, relocating across larger distances implies that the entrepreneur has to start over again in the process of building up a clientele.

Table 2. Firm mobility per distance category, locally-oriented and non-locally-oriented firms compared, period 2005-2007, 3-year mean share (in percentages)

	share of total movers	share of total locally oriented movers	share of total non locally oriented movers
a) to other municipality (total)	26		
- locally-oriented firms		21	
- non-locally-oriented firms			27
b) within municipality, beyond 2km.walk (total)	43		
- locally-oriented firms		38	
- non-locally-oriented firms			44
c) within municipality, within 2km.walk (total)	31		
- locally-oriented firms		40	
- non-locally-oriented firms			29

Source: Chamber of Commerce trade register data, period 2005-2007.

4.3. *The reasons behind firm relocation according to movers*

Based on the 20 interviews with entrepreneurs who moved out of the five weaker neighbourhoods between 2005 and 2007 (movers), we have been able to subdivide the main arguments for firm relocation into two main groups: private reasons and business-related reasons.

Private reasons were most prominent, especially for home-based entrepreneurs. For the latter group, changes in lifestyle or the household situation, e.g. the birth of children, commonly increase the demand for living space. This necessitates a private relocation to another dwelling, which automatically implies that the home-based firm moves as well. As most home-based entrepreneurs are active within sectors that do not depend on local customers and that are not hindered by high sunk costs, they are relatively footloose. This is clearly illustrated by the following quote by an entrepreneur who relocated his firm:

“In 2005, I had my first child, then I had my second, and we lived in a small apartment at that time in Indische Buurt. Yes, we needed more space. More space in Amsterdam is for me financially not possible at the moment and then you simply go to the periphery of the city. And that was hardly related to what I did... I work from home but generally where customers are. So for me... the location is nearly irrelevant so to say.” (ICT, Indische Buurt)

Next to private reasons, entrepreneurs also stated a number of business-related motivations for their relocation. Among these motivations, the increased need for business space is mentioned most often, necessitated by increased storage of goods or to accommodate growing employee numbers. This indicates that firm growth is an important driver of relocation that will eventually dominate over other firm space aspects pushing entrepreneurs to relocate. This is also reflected by the following quote by a firm mover:

“The space that we had was too small. And within those premises we could not get more space. So, very practical... It was a fantastic building... and we were close to Oosterpark, so that was lovely... Yes, it was lovely. It was really a pity that we had to leave there.” (Business services, Oosterparkbuurt)

A second business-related motivation for entrepreneurs to move is the need for more representative business space. Some firms were initially operated from home, which was not considered to be an appropriate location to welcome visiting customers. Moving to a proper business space or to a dwelling with a separate working space is regarded as a way to acquire a more ‘professional’ reputation and as a way to separate the work sphere from the private sphere. The following quotes represent these motivations:

“I had quite a large bedroom there, which I in fact cut in two, as a result of which I slept in one corner and worked in the other corner. So that was, in every respect, not an ideal situation... That was also not ideal when I had to receive customers. That happened. Customers found it charming in a way, I think, but you do not come across very seriously of course.” (Media production, Overvecht)

“The reason why we moved there in the end was that I wanted to keep it [work and private] more separated. And therefore we have two floors here: one for work and one for private life.” (ICT, Regentessekwartier)

As the most important reason for relocation, aspects of the neighbourhood itself were mentioned by only a small segment of moving entrepreneurs. For these entrepreneurs, the local market situation, e.g. the demand for their product or service and the number of local competitors, was perceived to be better at the new location. Interestingly, the local liveability situation was never mentioned as the primary reason to move, but was a secondary reason for a small number of moving entrepreneurs. In this respect, especially the fear of theft was considered a negative feature of the previous neighbourhood, as the following quote clearly shows:

“...And the neighbourhood was also not optimal...Here, there is much social control... There in Utrecht, I could not take deliveries. There I had to collect my things or they had to be delivered at the building site.” (Construction, Overvecht)

It is striking that some entrepreneurs acknowledged unforeseen benefits after moving to another neighbourhood, even though characteristics of the neighbourhood itself initially were no reason for leaving. These unforeseen benefits are related to the image of the neighbourhood, and especially how this is perceived by visiting customers. Being located in a better neighbourhood improves the image of the firm. Another unforeseen benefit is related to the market potential, and surprisingly not only for locally oriented firms.

“It happened that I was talking to a client, and then... they broke into his car. Yes, of course, you are very embarrassed. It bothers you personally... It is more about...perception, from the perspective of customers, visitors etcetera.” (Business services, Overvecht)

“I notice that I get more customers over here. Especially over the past two years. I get more customers... from this neighbourhood... it is like a village...”

people talk to each other, and I think it is also related to the amount of new houses being built here...and people would like something to be done [construction]. They let me know about that.” (Construction, Moerwijk)

Comparing locally oriented and non-locally oriented firms is difficult, since we were able to find only one locally oriented firm that moved. However, this also transmits a clear message, namely that locally oriented firms are far less inclined to move to another neighbourhood than non-locally oriented firms.

In line with expectations, the local market plays no important role for non-locally oriented firms. Among this group of entrepreneurs, especially private reasons were mentioned, followed by the demand for more business space and better representativeness of business space. With regard to the neighbourhood itself, it is interesting that also non-locally-oriented entrepreneurs consider the liveability situation at the new site beneficial for their firm. Naturally, non-locally-oriented firms have more freedom to move, since they do not depend on sales relationships in the neighbourhood and regular customers (Love & Crompton, 1999).

4.4. Plans for future relocation according to stayers

All entrepreneurs who stayed in the research neighbourhoods (20) were asked about their inclination to relocate from their current site in the near future. Based on the answers given, entrepreneurs can be divided into four groups.

The first group, which is also the largest with eight entrepreneurs, definitely wants to stay at the current site and mentions several reasons for this resoluteness. The most prominently-mentioned motivation is market-related: regular customers, satisfactory firm performance or low levels of competition at the present location make moving unnecessary.

“I think not, because... people know where to find me here. Because I have built up a circle of regular customers here in all the years that we are situated here, and then you cannot start all over again. Then you have lost them all... It is no office or so where you just use the telephone. It is all a matter of walking in...” (Retail, Indische Buurt)

“No, not within the next two years in any case. It is a small shop and it is always extra profitable for me.” (Hospitality, Moerwijk)

The second group of entrepreneurs (6) does not have an explicit wish to move, but it also does not rule out a future relocation. The entrepreneurs belonging to this group are satisfied with their location for the moment, but if the firm grows within the following two years, e.g. through the hiring of employees, relocation may become desirable or even necessary, as the following quote illustrates:

“Yes... yes and no. It depends on the growth actually. Look, if we would grow very quickly in the next two years, then we have to.” (Business services, Overvecht),

Another reason to change their mind is when an attractive alternative is offered elsewhere, in particular a site at a better location for a reasonable price:

“Yes, if I could find a location where the rent is not too high, but where you are at a location that attracts extra customers then it is worthwhile to consider it... That is very difficult in Amsterdam.” (Business services, Indische Buurt)

The third group consists of entrepreneurs (4) who would like to move, but who have no possibilities to do so. Although the current location does not live up to their expectations anymore, high sunk costs, like investments in the building, make relocation difficult. Also, a lack of financial means prevents entrepreneurs from moving, despite their concrete wish to do so, as becomes clear from the following quote:

“I have no plan, because I have no money. If I had money, I would move next week.” (Hospitality, Regentessekwartier)

This group of entrepreneurs mentions several reasons for wanting to relocate, most of which are related to the neighbourhood itself. In particular, a negative development of the local level of spending power and the downgrading of the local economic structure (less attractive mix of firms in the neighbourhood), negatively influence

entrepreneurs' satisfaction with their neighbourhood and stimulate the wish to relocate:

"This street has become a dead street. This street used to be lively, but is now dead. I would say, those companies have vanished silently." (Hospitality, Regentessekwartier)

"Economically, it is a disaster in this neighbourhood... everyone who can afford a decent house just leaves... Sales are dramatic in any case, because there is simply no money. Well, and of course you are affected by that through people's spending behaviour. That is as simple as that." (Personal services, Overvecht)

The fourth, and smallest (2), group of entrepreneurs actually expects relocation within the next two years. These entrepreneurs' motivations to move can be subdivided into two categories. The first category relates to the costs and quality of the current premises. Recent growth levels or expected growth in the near future have necessitated a larger business space:

"Our expectation for the future is that we will buy our own premises, from February onwards or so... The reason is enlargement, right." (Business services, Regentessekwartier)

The second category is not so much related to firm developments, but rather linked to changes in the entrepreneurs' private circumstances. Home-based firms automatically move if the entrepreneur moves to another dwelling for personal or family-related reasons, like family enlargement. This type of relocation does not always mean that entrepreneurs are not satisfied with their neighbourhood. Some even indicate that they want to move to a larger dwelling within the same neighbourhood.

"So satisfied that I want to stay in the neighbourhood. In another dwelling. It is a multicultural neighbourhood, we like it. It is a big city, but also like a village in a way. So... it has its charms... If necessary, I would move outside the neighbourhood. But it is not my wish... And the reason that we stay is the

central location, but also the importance of a stable school environment for the children” (business services, _Oosterparkbuurt)

“It has nothing to do with the firm. It is a family extension... It is a little one who is now getting bigger, and you can only do this much in a large two-room apartment. Or you can renovate it and divide it in small compartments. That is a possibility, but if that solves the problem? No.” (Business services, _Oosterparkbuurt)

Whereas almost all entrepreneurs that are outspoken about their reasons for staying operate locally oriented firms, most entrepreneurs expressing their wish to leave have non-locally oriented firms. In line with our expectation, on the one hand, entrepreneurs of locally oriented firms attach more value to neighbourhood factors (market) and sunk costs when expressing their inclination to stay or move. On the other hand, for non-locally oriented firms, space, representativeness, but especially a better alternative elsewhere, are mentioned as reasons to consider a move. The neighbourhood itself is less important for entrepreneurs of non-locally oriented firms, because of the nature and the broader market scope of their commercial activities.

5. Conclusions

In this paper, we studied to what extent entrepreneurs' relocation propensity is triggered by characteristics of their neighbourhood. We distinguish between reasons that affect entrepreneurs' general inclinations to move ('ex ante', so without the requirement that the firm will actually move), and reasons that have been put forth by entrepreneurs who actually moved between 2005 and 2007 ('ex post'). We collected this information by conducting 40 in-depth interviews with entrepreneurs in five disadvantaged neighbourhoods in the Netherlands. Half of our respondents has moved their firm out of the research neighbourhoods. This research design enabled us to tackle the following research question:

“To what extent do economic, social, physical, and liveability neighbourhood characteristics play a role for relocation propensity of firms in weak neighbourhoods?”

The overall conclusion is that mobility figures are rather low; the yearly average of movers is only ten per cent of the total firm population. The vast majority

(81 per cent) of moving firms is active within non-locally-oriented sectors. Firm relocations take place across relatively short distances, since two-thirds of all relocations takes place within a two-kilometre range, and only 25 per cent leaves the municipality. If firms in locally-oriented sectors do relocate, they are much more likely to remain within a two kilometres range (40 per cent) than non-locally-oriented firms (29 per cent).

From our in-depth interviews with entrepreneurs, we conclude that *market relationships* within the neighbourhood, like local demand, the local level of spending power and a local clientele, are the most important aspects at neighbourhood level that affect entrepreneurs' relocation propensity. These factors are often mentioned as the main motivations for wanting to stay within the neighbourhood. Concerning *conditional relationships*, we can conclude that the most important factor leading to actual or planned relocation is the amount and quality of business space, rather than characteristics of the neighbourhood itself. The liveability situation in the neighbourhoods is at most a secondary reason for relocation. Still, even though it is not a main reason for moving, an unclean and unsafe environment is considered a negative influence on the firm's reputation. A more liveable environment at the new location is, however, regarded as a beneficial incidental circumstance, rather than something the movers were consciously looking for. The social neighbourhood context, measured by embeddedness in local networks does not play a role for firms' relocation propensity.

We find a close correspondence between stayers and locally oriented firms on the one hand, and movers and non-locally oriented firms on the other hand. Many stayers in our sample belong to sectors that depend on local customers. For these firms, a wide range of reasons determine the wish to relocate in the future, including economic and socio-economic neighbourhood factors. Movers are often active in sectors like business services, construction and manufacturing, which are by nature more 'footloose'. For these firms, especially private considerations and, to a lesser extent, neoclassical factors like costs and space determined actual relocation, whereas economic and socio-economic neighbourhood factors are not taken into consideration. However, it is interesting that both locally-oriented firms and non-locally-oriented firms mention that they are affected by the local liveability situation, even though it is not a primary reason for both actual and planned relocation.

Overall, we found that the reasons behind firm relocation propensity are explained by a combination of the factors put forth in the *neoclassical*, *behavioural* and, to a lesser extent, also the *institutional* strand of literature. Costs, space, market and accessibility aspects are indeed important reasons for both actual and planned relocation, but they cannot be seen apart from other reasons relating to the entrepreneur as an individual. What stands out is that in general, firms move because firm-internal developments (growth) or, in the case of home-based entrepreneurs, because changes in the household situation or housing preferences make relocation necessary. Aspects of the weak neighbourhood itself are only regarded as problematic, and consequently influence relocation propensity, when these aspects *directly* affect firm performance. In this respect, local spending power is more important than local liveability.

Although this study provides some insight in the factors that influence entrepreneurs' relocation decisions, we are aware of two limitations. First, although our initial aim was to find an equal number of locally-oriented firms and non-locally-oriented firms for our interviews, we encountered difficulties in finding locally-oriented movers. As a consequence, only one of the interviewed movers was active in a locally-oriented sector. On the one hand, this illustrates the lower propensity to move of firms in this type of sector, but on the other hand, it makes it impossible to investigate whether relocation decisions differ between the two groups of entrepreneurs (active in locally-oriented and non-locally-oriented sectors).

Second, our focus on disadvantaged neighbourhoods within the largest cities of the Netherlands provides insight in the relocation propensity of entrepreneurs within supposedly unattractive business contexts, but it makes it difficult to generalize our results to other types of neighbourhoods and in other parts of the country. It remains a challenge for future research to investigate whether the results of this study are also applicable to other neighbourhood contexts.

We close with a recommendation for local policy makers interested in fostering commercial activities in weaker residential urban neighbourhoods. Investing in safety and the attractiveness of public space will likely benefit both locally oriented and non-locally oriented firms, at least by enhancing the firm's reputation or by retaining home-based entrepreneurs. Although, based on the results of this paper, liveability improvements cannot be expected to have a direct impact on relocation patterns of firms, several entrepreneurs have mentioned concerns about the local

liveability situation or mentioned this as a secondary reason for relocation. Therefore, investing in local liveability might increase entrepreneurs' satisfaction with their location.

Acknowledgements

The authors would like to thank Veronique Schutjens (Utrecht University) for her valued input and cooperation while setting-up and carrying out the fieldwork, and the Chamber of Commerce Amsterdam (Jan Jans and colleagues) for making available the data on firm mobility in the research neighbourhoods.

References

- Aalders, R., Bakkeren, A., Kok, J. & Twigt, T. (2008). *De kracht van de wijk. Belang van wijkeconomie voor de leefbaarheid in Amsterdamse krachtwijken*. (Amsterdam: Rabobank Amsterdam en Omstreken/ EZ Amsterdam/ MKB Amsterdam)
- Brouwer, A.E., Mariotti, I. & Van Ommeren, J.N. (2004). The firm relocation decision: An empirical investigation. *The Annals of Regional Science*, 38, 335-347
- Bulterman, S. & Van Klink, A. (2007). Ondernemers en hun bedrijven in de wijk. Het cement voor de economische pijler. (In J. Van Dijk and V. Schutjens (Eds.), *De economische kracht van de stad*. Assen: Van Gorcum)
- Davidsson, P. & Honig, B. (2003). The role of social and human capital among nascent entrepreneurs. *Journal of Business Venturing*, 18, 301-331
- Dijk, J. Van & Pellenbarg, P. (2000). Firm relocation decisions in The Netherlands: An ordered logit approach. *Papers in Regional Science*, 79, 191-219
- Florida, R. (2002). *The rise of the creative class: And how it's transforming work, leisure, community and everyday life*. (New York: Basis Books)
- Knoben, J. (2007). A spider and the stickiness of its web. The causes and consequences of spatial firm mobility. Dissertation, University of Tilburg
- Lambooy, J. G. (1995). *Regionaal economische dynamiek; een inleiding in de economische geografie*. Coutinho, Bussum.
- Leone, R.A. & R.J. Struijk (1976). The incubation hypothesis: evidence from five SMA's. *Urban Studies*, 13, 325-331
- Love, L. & Crompton, J. (1999). The Role of Quality of Life in Business (re)Location Decisions. *Journal of Business Research*, 44, 211-222

- Mackloet, A., Schutjens, V. & Korteweg, P. (2006). *Starten vanuit huis: bittere noodzaak of verkozen lifestyle?* (Utrecht: DGW/ NETHUR Partnership)
- Mariotti, I. (2005). Firm relocation and regional policy. A focus on Italy, The Netherlands and the United Kingdom. Dissertation, University of Groningen
- Ouwehand, A. & Van Meijeren, M. (2006). *Economische initiatieven in stadswijken. Een verkennend onderzoek.* (Gouda: Habiforum)
- Pellenbarg, P.H., Van Wissen, L.J.G. & Van Dijk, J. (2002). Firm migration. (In P. McCann (Eds.), *Industrial location economics* (pp. 110-148). Cheltenham: Edward Elgar Publishing Limited.)
- PBL (2010). *Bedrijvigheid en leefbaarheid in stedelijke woonwijken.* Den Haag/Bilthoven: Planbureau voor de Leefomgeving
- RPB (2007). *Verhuizingen van bedrijven en groei van de werkgelegenheid.* (Den Haag: Ruimtelijk Planbureau)
- Salvesen, D. & Renski, H. (2003). *The importance of quality of life in the location decisions of new economy firms.* (Chapel Hill: Centre for Urban and Regional Studies, University of North Carolina)
- Stam, E. (2003). Why butterflies don't leave. Locational evolution of evolving enterprises. Dissertation, Utrecht University

ⁱ The neighbourhood selection is based on data availability by CBS on all neighbourhoods in the Netherlands. The neighbourhood does not correspond perfectly with the geographical units in our study (5-digit postal code areas), but this is the best information available to us and the approximation is fairly accurate.

ⁱⁱ In this study we distinguish between 11 broad commercial sectors, namely: ICT and media production, art, commercial services, construction and installations, education and coaching, hotel and catering, manufacturing, personal services, retail and repair, transport and storage, and wholesale.

The UNU-MERIT WORKING Paper Series

- 2011-01** *Mitigating 'anticommons' harms to research in science and technology* by Paul A. David
- 2011-02** *Telemedicine and primary health: the virtual doctor project Zambia* by Evans Mupela, Paul Mustard and Huw Jones
- 2011-03** *Russia's emerging multinational companies amidst the global economic crisis* by Sergey Filippov
- 2011-04** *Assessment of Gender Gap in Sudan* by Samia Satti Osman Mohamed Nour
- 2011-05** *Assessment of Effectiveness of China Aid in Financing Development in Sudan* by Samia Satti Osman Mohamed Nour
- 2011-06** *Assessment of the Impacts of Oil: Opportunities and Challenges for Economic Development in Sudan* by Samia Satti Osman Mohamed Nour
- 2011-07** *Labour Market and Unemployment in Sudan* by Samia Satti Osman Mohamed Nour
- 2011-08** *Social impacts of the development of science, technology and innovation indicators* by Fred Gault
- 2011-09** *User innovation and the market* by Fred Gault
- 2011-10** *Absorptive capacity in technological learning in clean development mechanism projects* by Asel Doranova, Ionara Costa and Geert Duysters
- 2011-11** *Microeconomic analysis of rural nonfarm activities in the Kyrgyz Republic: What determines participation and returns?* By Aziz Atamanov and Marrit van den Berg
- 2011-12** *Immigration and growth in an ageing economy* by Joan Muysken and Thomas Ziesemer
- 2011-13** *State-led technological development: A case of China's nanotechnology development* by Can Huang and Yilin Wu
- 2011-14** *A historical perspective on immigration and social protection in the Netherlands* by Melissa Siegel and Chris de Neubourg
- 2011-15** *Promoting return and circular migration of the highly skilled* by Metka Hercog and Melissa Siegel
- 2011-16** *Voluntary agreements and community development as CSR in innovation strategies* by Vivekananda Mukherjee and Shyama V. Ramani
- 2011-17** *Strengthening the roles of political parties in Public Accountability - A case study of a new approach in political party assistance* by Renée Speijcken
- 2011-18** *The elusive quest for the golden standard: Concepts, policies and practices of accountability in development cooperation* by Renée Speijcken
- 2011-19** *Are health care payments in Albania catastrophic? Evidence form ALSMS 2002, 2005 and 2008* by Sonila Tomini and Truman G. Packard
- 2011-20** *On India's plunge into Nanotechnology: What are good ways to catch-up?* By Shyama V. Ramani, Nupur Chowdhury, Roger Coronini and Susan Reid
- 2011-21** *Emerging country MNEs and the role of home countries: separating fact from irrational expectations* by Rajneesh Narula and Quyen T.K. Nguyen
- 2011-22** *Beyond knowledge brokerage: An exploratory study of innovation intermediaries in an evolving smallholder agricultural system in Kenya* by Catherine W. Kilelu, Laurens Klerkx, Cees Leeuwis and Andy Hall
- 2011-23** *Dynamics of biosciences regulation and opportunities for biosciences innovation in Africa: Exploring regulatory policy brokering* by Ann Kingiri and Andy Hall

- 2011-24** *The when and where of research in agricultural innovation trajectories: Evidence and implications from RIU's South Asia projects* by Vamsidhar Reddy, T.S., Andy Hall and Rasheed Sulaiman V.
- 2011-25** *Innovation and Diffusion of Clean/Green Technology: Can Patent Commons Help?* By Bronwyn H. Hall and Christian Helmers
- 2011-26** *Technology alliances in emerging economies: Persistence and interrelation in European firms' alliance formation* By Rene Belderbos, Victor Gilsing, Jojo Jacob
- 2011-27** *Innovation pathways and policy challenges at the regional level: smart specialization* By René Wintjes and Hugo Hollanders
- 2011-28** *Innovation and productivity* by Bronwyn H. Hall
- 2011-29** *Mapping the interdisciplinary nature and co-evolutionary patterns in five nano-industrial sectors* by Lili Wang and Ad Notten
- 2011-30** *Assessment of industrial performance and the relationship between skill, technology and input-output indicators in Sudan* by Samia Satti Osman Mohamed Nour
- 2011-31** *Assessment of skill and technology indicators at the macro-micro levels in Sudan* by Samia Satti Osman Mohamed Nour
- 2011-32** *Education, training and skill development policies in Sudan: Macro-micro overview* by Samia Satti Osman Mohamed Nour
- 2011-33** *Estimating the rate of return to education in Sudan* by Samia Satti Osman Mohamed Nour
- 2011-34** *The importance (impact) of knowledge at the macro-micro levels in Sudan* by Samia Satti Osman Mohamed Nour
- 2011-35** *Angus Maddison and Development Economics* by Adam Szirmai
- 2011-36** *Managerial ownership and urban water utilities efficiency in Uganda* by Dorcas Mbuvi and Achraf Tarsim
- 2011-37** *Immigration and growth in an ageing economy* by Joan Muyskens and Thomas Ziesemer
- 2011-38** *The Development of Diaspora Engagement Policies in Burundi and Rwanda* by Sonja Fransen & Melissa Siegel
- 2011-39** *Understanding the changing role of the Turkish diaspora* by Özge Bilgili & Melissa Siegel
- 2011-40** *Understanding Ethiopian diaspora engagement policy* by Katie Kuschminder and Melissa Siegel
- 2011-41** *Engaging the diaspora in India* by Metka Hercog and Melissa Siegel
- 2011-42** *Protecting Vulnerable Families in Central Asia: Poverty, vulnerability and the impact of the economic crisis* by Franziska Gassmann
- 2011-43** *Innovation performance and embeddedness in networks: evidence from the Ethiopian footwear cluster* by Mulu Gebreeyesus and Pierre Mohnen
- 2011-44** *The power of the strong state: A comparative analysis of the diaspora engagement strategies of India and Ethiopia* by Katie Kuschminder and Metka Hercog
- 2011-45** *New insights on the role of location advantages in international innovation* by Rajneesh Narula and Grazia D. Santangelo
- 2011-46** *Preferences for conditioning and being conditioned - experimental & survey evidence from Zambia* by Esther Schüring
- 2011-47** *International migration and local employment: analysis of self-selection and earnings in Tajikistan* by Aziz Atamanov and Marrit van den Berg

- 2011-48** *Complementarity between in-house R&D and technology purchasing: evidence from Chinese manufacturing firms* by Jun Hou and Pierre Mohnen
- 2011-49** *The internationalization of R&D* by Bronwyn H. Hall
- 2011-50** *Missing the target: Lessons from enabling innovation in South Asia* by Sulaiman V. Rasheed , Andy Hall and T.S. Vamsidhar Reddy
- 2011-51** *Optimal public investment, growth, and consumption: Evidence from African countries* by Augustin Kwasi Fosu, Yoseph Yilma Getachew and Thomas Ziesemer
- 2011-52** *Size, competition, and innovative activities: a developing world perspective* by Abdul Waheed
- 2011-53** *What Changes Gini Coefficients of Education? On the dynamic interaction between education, its distribution and growth* by Thomas Ziesemer
- 2011-54** *Global Framework for differential pricing of pharmaceuticals* by Rutger Daems and Shyama V. Ramani
- 2011-55** *The effect of net immigration on economic growth in an ageing economy: transitory and permanent shocks* by Joan Muysken and Thomas Ziesemer
- 2011-56** *Research, higher education and innovation: redesigning multi-level governance within Europe in a period of crisis* by Jo Ritzen and Luc Soete
- 2011-57** *A renaissance for social mobility and its significance for the bridge towards postsecondary education* by Jo Ritzen
- 2011-58** *Arab Regional Systems of Innovation: Characteristics and Implications* by Samia Satti Osman Mohamed Nour
- 2011-59** *The use and economic impacts of ICT at the macro-micro levels in the Arab Gulf countries* by Samia Satti Osman Mohamed Nour
- 2011-60** *The Use and Economic Impacts of Information and Communication Technology (ICT) in Sudan* by Samia Satti Osman Mohamed Nour
- 2011-61** *Innovation and firm-level productivity: econometric evidence from Bangladesh and Pakistan* by Abdul Waheed
- 2011-62** *User innovation in the business enterprise sector of Maputo Province in Mozambique* by Júlia Eva Baltazar Zita & Avelino Hermíneo Lopes
- 2011-63** *Business spaces between entrepreneurs and opportunities. The impact of the local built environment and zoning regulations on businesses in Dutch cities* by Pascal Beckers & Robert C. Kloosterman
- 2011-64** *Exploring the role of the neighbourhood in firm relocation: differences between stayers and movers* by Bart Sleutjes & Pascal Beckers